

IRAQ PROVINCIAL RECONSTRUCTION TEAMS: FLAWED FROM THE START,  
HOW PERVERSE INCENTIVES AND UNINTENDED OUTCOMES  
IMPACTED SUCCESS

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The opinions and conclusions expressed herein are those of the student author and do not necessarily represent the views of the U.S. Army Command and General Staff College or any other governmental agency. (References to this study should include the foregoing statement.)

## ABSTRACT

**IRAQ PROVINCIAL RECONSTRUCTION TEAMS: FLAWED FROM THE START, HOW PERVERSE INCENTIVES AND UNINTENDED OUTCOMES IMPACTED SUCCESS**, by Eugene J. Arnold, 85 pages.

The Iraq Provincial Reconstruction Team program (PRT) was part of the larger U.S. Government effort to rebuild Iraq. This thesis explores how institutionalized rules created perverse incentives which produced deleterious outcomes. The study applies the Institutional Analysis and Development Framework to four case studies of PRT activities: The Commander's Emergency Response Program, The Quick Response Program, The Local Governance Program, and the Basrah Modern Slaughterhouse Project.

The study identifies a number of ways in which the rules governing the PRTs resulted in negative outcomes. The rules encouraged a trial and error approach that is not consistent with a wicked problem set. The intentionally ad hoc structure of the individual PRTs contributed to a lack of a unified programmatic vision and prevented the development of a comprehensive plan for the reconstruction of Iraq. PRTs were overly inward-looking when it came to measuring success. They had incentives to rely on performance metrics which had little connection to the critically important developmental objectives of beneficiary ownership and sustainability.

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## ACRONYMS

BCT	Brigade Combat Team
BMS	Basrah Modern Slaughterhouse Project
CTO	Cognizant Technical Officers
CERP	Commander's Emergency Response Program
DoD	Department of Defense
DoS	Department of State
ePRT	Embedded Provincial Reconstruction Team
GRD	Gulf Region District
GRS	Gulf Region South Office
IAD	Institutional Analysis and Development Framework
IRAP	Iraq Rapid Assistance Program
LGP	Local Governance Program
MOA	Memorandum of Agreement
MOU	Memorandum of Understanding
NGOs	Non Governmental Organizations
OPA	Office of Provincial Affairs
PRT	Provincial Reconstruction Team
QRP	Quick Response Fund
QRF-S	Quick Response Fund State
RTI	RTI International
SIGIR	Office of the Special Inspector General for Iraq Reconstruction
SOW	Statement of work
USACE	United States Army Corps of Engineers



USAID      U.S. Agency for International Development

USAID/OIG   USAID Office of Inspector General

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## CHAPTER 1

### INTRODUCTION

The PRT program is a priority joint Department of State (DOS)/Department of Defense (DOD) initiative to bolster moderates, support U.S. counterinsurgency strategy, promote reconciliation, shape the political environment, support economic development, and build the capacity of Iraqi provincial governments to hasten the transition to Iraqi self-sufficiency.

— Center for Army Lessons Learned,  
*PRT Playbook*

#### Provincial Reconstruction Teams: Flawed from the Start?

In 2005, the United States introduced Provincial Reconstruction Teams (PRTs) into Iraq as a means to counter the growing Al-Qaida led insurgency that was hindering stabilization operations and prolonging the conflict in Iraq. They were to do so by providing assistance to local and regional governments that were struggling to transition from centralized control to self-governance.<sup>1</sup> Their purpose was to provide expert advice and guidance on reconstructing Iraqi civic and economic institutions to provincial and local government, NGOs, and to private individuals. The effort amounted to nation building at the provincial and local level after decades of centralized control under the Baathist regime.

The problem of reconstructing Iraq was monumental and the challenges associated with it qualify the problem as a wicked problem. Wicked problems by definition defy simple solutions that work when confronting tame problems.<sup>2</sup> Unlike tame problems, which can be addressed by scientific methods, wicked problems are a tangled skein of interconnecting situations that shift and reconfigure themselves in the midst of attempts to resolve them. Wicked problems have been the bane of central

planners and analysts long before the introduction of the concept in the 1970s and they continue to challenge planners today because of their multi-faceted complexity and because many times underlying roots of the problems are unknown. When dealing with unknowns in the context of a wicked problem it can be useful to adopt a trial and error method, seeing what works and what does not one program or project at a time. And that is what the PRTs did.

The Iraq PRT program was in many ways an ad hoc effort combining military civil affairs units with career diplomats and civilian contractors in a trial and error approach to societal engineering. This was in fact by design. The creators of the PRT program envisioned it as a form of field experimentation. Since no one knew how to go about the task of nation building, what might succeed and what might fail, the idea was to empower the teams working at local and provincial levels so that they might give a wide variety of projects and approaches a try and to see what worked.<sup>3</sup> PRTs could then profitably duplicate successes in other provinces or could abandon failures with a minimal, localized impact that was, hopefully, not too damaging to the local economy, infrastructure, or political situation.

At the height of the program in 2008, there were 31 PRTs, including Embedded PRTs (ePRTs). There was at least one PRT operating in each of Iraq's 18 governorates or provinces. Coalition partners South Korea and Italy were responsible for two of the PRTs and the remaining 29 were American. Each PRT was to attempt to fulfill its mission in partnership with its paired brigade combat team (BCT) as the team members deemed best. PRTs received little in the way of direction from the Embassy in Baghdad or from the Departments of State and Defense in Washington.<sup>4</sup> A Memorandum of Agreement

(MOA) between the two departments established broad guidelines regarding administrative and security measures but the MOA did not directly address policy or program planning.<sup>5</sup>

In a trial and error process, some failures were inevitable. However, not all of the program's failures and deficiencies were the result of the trial and error process. Some appear to have been the result of flaws inherent in the PRT program from its inception. Others were the result of errors and missteps made along the way but which remained unrecognized or unacknowledged for significant periods of time. In some cases the mistakes were part of processes based on false assumptions that institutionalized the mistakes and which created a repeating pattern. In other cases, the problems developed as a result of the competing interests and goals of the variety of participants and stakeholders in the PRT program. These types of situations created perverse incentives that reinforced negative behaviors and frequently deleterious outcomes. The program cost American taxpayers billions of dollars, much effort, and lasted for six years, concluding with the departure of Coalition military forces from Iraq in December 2011. Yet we have no real understanding if the PRTs were successful in their stated mission to reconstruct Iraq.

#### Research Question

The primary research question of this paper is, how did the rules affecting PRTs in Iraq create perverse incentives that resulted in unintended consequences and deleterious outcomes? It will examine the program as an institution, considering how the regulations governing the program were established to produce a desired end but which have instead resulted in a variety of unintended consequences and deleterious outcomes.

The paper will provide specific examples of how rules established to govern the PRTs and their associated programmatic efforts acted as perverse incentives and contributed to a variety of problems that occur regularly in the field of developmental aid. Building on those examples, it will categorize the unintended negative consequences that resulted from those perverse incentives. Finally, the paper will make conclusions about the avoidability or inevitability of perverse incentives and their deleterious outcomes in the context of a wicked problem like the reconstruction of Iraq.

### Definitions

I use a number of terms in this paper that require definition. The first is perverse incentive. Perverse in this case means wrong or contrary. The creators intended the incentive to motivate actors to achieve a particular outcome, but instead the actor behaved in a manner that produced an outcome counter to the intent.<sup>6</sup> For example, Colonial French officials in Hanoi intended to reduce the number of rats in the city by offering a bounty on rat tails. Instead of reducing the rat population however, the enterprising citizens of Hanoi took to breeding the rats not only raising the number of rats in the city but simultaneously straining the treasury.<sup>7</sup> The bounty was the perverse incentive; the rise in the rat population was the unintended deleterious consequence.

Perverse incentives and unintended deleterious consequence can be present in a variety of societal contexts but they tend to be more abundant in the context of a wicked problem. Following Horst Rittel and Melvin Webber a wicked problem is defined as a problem that defies simple linear efforts to resolve it.<sup>8</sup> Rittel and Weber listed ten criteria that define wicked problems but simply put these problems are large, complex, and come with significant negative consequences for failure.<sup>9</sup> Interestingly, one of Rittel and

Webber's ten criteria stated that wicked problems were unsolvable through trial and error because each attempt contributed something new to the circumstances of the problem. The other criteria however suggest that any approach to a wicked problem stands little chance of success because they defy simple categorization. It follows that some form of trial and error, directed at components of the wicked problem, is in fact the only means by which a solution might be discovered.

### Scope, Limitations, and Assumptions

In this paper, I will concentrate solely on the PRT experience in Iraq. While PRTs were operating in Afghanistan prior to the creation of the Iraq PRT program, the Iraqi PRT program was distinct and the programs shared little in common beyond nomenclature. Given that the majority of Iraq PRTs were American, this paper will confine itself to the American PRTs. The PRTs administered by Italy and South Korea functioned under separate rules and had distinct outcomes that would unnecessarily widen the scope of this paper if they were included. This paper will likewise avoid any programs administered solely by the Coalition Forces in Iraq that did not include PRT participation or which did not impact directly on the PRTs.

This paper will explore a selected problem set related to PRT operations in Iraq during the reconstruction period and it will challenge some of the central operational mechanisms that composed the program. It will point out, with the benefit of hindsight, mistakes that PRT program planners and PRT team members made.

While this paper will examine primarily negative outcomes, it is not my intent to question the motives, or character of the individuals involved with the PRT program. The effort to reconstruct Iraq was not only monumentally daunting, it was perilous. Brave

men and women from both the military and civilian ranks worked side by side for extended periods in environments that ranged from austere but occasionally dangerous to locations where BCTs were conducting full combat operations. A wide range of personal factors motivated PRT team members to participate in the program, but I assume that no one arrived at their PRT location intending to create negative outcomes. I will leave motivations and other personal reflections to the individual PRT team members who wish to discuss them.

The research question assumed that the institutional structure of the Iraq PRT program created perverse incentives that produced deleterious outcomes. This assumption was predicated on my own experience as an Iraq PRT team member and my preliminary research into the Iraq PRT program which confirmed that the program experienced a variety of problems. The assumption proved valid early in the research phase of this project as I discovered examples of perverse incentives and deleterious outcomes associated with nearly every review of PRT projects and programs.

### Summary

The U.S. effort to reconstruct Iraq was an on-the-job experiment in nation building and development that had little historical precedent. It was complex, expensive, and controversial. This chapter has outlined a course of analysis that considers the effectiveness of the PRT program in light of perverse incentives and deleterious outcomes. Chapter 2, reviews literature related to the international developmental aid system and introduces some of the sources from which the case studies in Chapter 4 were drawn.



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<sup>1</sup>National Security Presidential Directive 36, United States Government Operations in Iraq, May 11, 2004 (NSPD 36).

<sup>2</sup>Horst W. J. Rittle and Melvin M. Weber, "Dilemmas in a General Theory of Planning," *Policy Sciences*, 4 (1973): 155.

<sup>3</sup>White House, Fact Sheet: Expanded Provincial Reconstruction Teams Speed the Transition to Self-Reliance, March 22, 2007, <http://merln.ndu.edu/archivepdf/iraq/WH/20070322.pdf>, 1-3, (accessed June 1, 2013).

<sup>4</sup>Stephen Donnelly, "We Did Mean Well," *Foreign Policy*, [http://www.foreignpolicy.com/articles/2011/10/05/peter\\_van\\_buren\\_iraq\\_prts\\_stephen\\_%20donnelly?page=0,0](http://www.foreignpolicy.com/articles/2011/10/05/peter_van_buren_iraq_prts_stephen_%20donnelly?page=0,0), 1 (accessed June 1, 2013).

<sup>5</sup>Memorandum of Agreement between Department of State and Department of Defense on Iraq PRTs, February 22, 2007, 1.

<sup>6</sup>Clark C. Gibson, et. al., *The Samaritan's Dilemma: The Political Economy of Development Aid* (Oxford: Oxford University Press, 2005), 9.

<sup>7</sup>Michael G. Vann, "Of Rats, Rice, and Race: The Great Hanoi Rat Massacre, an Episode in French Colonial History." *French Colonial History* 4 (May 2003): 191-203.

<sup>8</sup>Rittle and Weber, 155-169.

<sup>9</sup>*Ibid.*, 160.

## CHAPTER 2

### LITERATURE REVIEW

In this paper, I consider the Iraq Provincial Reconstruction Team program as a species of foreign aid. It was perhaps a unique experiment in foreign aid, but it is best understood in that context. Foreign aid is the transmission of money, material, technical expertise, or other goods and services from a donor state to a recipient, usually a government.<sup>1</sup> Scholars and planners traditionally separate aid into two categories humanitarian and developmental aid. Donors provide humanitarian aid in response to a crisis or natural disaster. It may be short term, for example in response to a tsunami where recovery operations are intense but last only a few months. It may also be longer term as is the case in HIV prevention and AIDS treatment programs which can last for many years. The aim of humanitarian aid is to provide assistance of a more direct nature to the victims of a disaster or crisis. Donor governments frequently transmit humanitarian aid through international and local NGOs, bypassing central governments.

Developmental aid differs from humanitarian aid in both purpose and the mechanism for its delivery. Developmental aid usually takes the form of a contractual relationship between the donor and recipient governments with the stated purpose of developing the economy of the recipient nation. Developmental aid projects tend to be large and expensive, focusing on infrastructure development and capacity building, such as the construction of major hydroelectric dams or road and bridge networks.

Developmental aid projects are intended not only to stimulate economic growth in the recipient nation but also frequently to produce some benefit, direct or indirect for the donor nation. In the case of a hydroelectric dam project, for example the donor nation

may stipulate that the contractor be from the donor nation and that a particular donor-nation corporation will supply the turbines.

The developmental aid system is a phenomenon of the 20th century, originating in the aftermath of World War II. The United States sought to rebuild infrastructures and stimulate economic growth through programs like the Marshall Plan in Europe and through direct procurement by the Supreme Commander of the Allied Powers in Japan. The devastated economies and physical infrastructures of Europe and Japan needed repair not only to provide the U.S. with trading partners but as a preventative to communist expansion.<sup>2</sup> Western Europe and Japan recovered, prospered, and then joined the ranks of donors in the emerging developmental aid system. Throughout the 1950s and 1960s, donor nations shifted the focus of their attention to the new nations of the post-colonial world. They did so in the belief that what had worked in Europe would also work in developing nations. The United Nations, the International Bank for Reconstruction and Development (IBRD, today the World Bank Group), and the International Monetary Fund (IMF) were all created in the wake of World War II became integral parts of this development system by setting donation targets for donors, identifying the countries most (or least) likely to benefit from development projects, and by creating development grants and loans.<sup>3</sup>

Developmental Aid is today after nearly seventy years, an enterprise encompassing hundreds of entities and billions of dollars. The literature on the subject is vast and varied focusing on diverse topics from the effects of micro loans on small communities to the effectiveness of AIDS education to the relevancy of developmental aid in the era of globalization. The portion of the developmental aid literature most

relevant to this paper is the debate on the utility of developmental aid. The following discussion is not comprehensive, merely representative of some of the major threads in the discussion.

From the onset, the international developmental aid system was largely based on Keynesian economics and had much in common with New Deal domestic spending policies.<sup>4</sup> Its proponents assumed that developmental aid was a moral good and barely considered that there would be downsides to the new system. Not everyone agreed however. Milton Friedman was an early critic of developmental aid. Friedman believed that foreign developmental aid would lead to dependency and the establishment of the social welfare state and pave the way for communism.<sup>5</sup> Writing in the decade after the Marshall Plan, Friedman was convinced that developmental aid aided no one more than recipient nation central governments and called for the cessation of developmental aid programs.

Friedman's critique was more or less lost in the following decade as developmental aid became one more piece on the chessboard of the cold war. The success of the Marshall Plan in staving off the advance of communism into Western Europe, was a favorable argument about the utility of developmental aid even if it did not forestall the rise of the European social welfare state. In 1961, hoping to expand on the perceived success of the Marshall Plan, President Kennedy established the Peace Corps and the United States Agency for International Development (USAID) fully committing the U.S. to developmental aid policies targeted at the developing world beyond Europe.<sup>6</sup>

By the early 1970s developmental aid projects outside of Europe had established a track record that yielded some quantifiable outcomes. Peter T. Bauer of the London

School of Economics took up where Friedman left off and on the basis of a decade of failed and underperforming development projects and programs categorized developmental aid as nothing more than the redistribution of wealth from taxpayers in wealthy nations to the governments of poor nations.<sup>7</sup> However, developmental aid was still being discussed in the context of Cold War bipolarity and ideology so any evaluation of developmental aid on its own merits rather than as an alliance recruiting tool would have to wait for a paradigm shift in the international system.

Such a shift came with the dissolution of the Eastern Bloc in 1989 and the fall of the USSR in 1991. Absent the metanarrative of democracy versus communism, scholars and planners were free to analyze the developmental aid system on its economic and social merits rather than on its ideological usefulness. As early as 1992 Howard White claimed that the previously assumed link between developmental aid and macroeconomic growth could not be proven and foreshadowed that developmental aid might have a dampening effect on macroeconomic growth.<sup>8</sup> This was important because most developmental aid theories assumed that aid would stimulate growth.

In a report published in 1998 the World Bank found that developmental aid produced mixed results.<sup>9</sup> Countries with stable governments and sound economies tended to make the most of the international developmental aid that they received while countries governed by corrupt regimes and with troubled economies squandered or otherwise mismanaged the developmental aid they received. In other words, the countries most in need of developmental aid were least able to turn their donations into actual development. The report suggested that developmental aid should be shifted from monetary distribution to providing support for recipient nation reformers willing to take

on the corruption and mismanagement inherent in their political systems. The report further stated that developmental aid donors contributed to the problems affecting the developmental aid system not only by a money-focused approach but also through competition between donors as well as donor institution inefficiency.<sup>10</sup>

Subsequent scholars continued to find serious deficiencies in the developmental aid system. David Sogge found that developmental aid is hampered by its own delivery mechanisms and too frequently focuses on wealth redistribution rather than resolving root causes of poverty.<sup>11</sup> Roger Riddell went further, proposing that despite successes in some well publicized cases, both types of foreign aid are not really working.<sup>12</sup> He cites the by now familiar culprits of poor donor coordination and administration, recipient nation governance failures, and adds NGOs with narrow agendas as underlying causes for the failures of the international aid system. Rittle says that emergency or humanitarian relief efforts also undercut the effectiveness of developmental aid by siphoning off funds needed for development and reallocates them to the easier-to-manage and more publicly visible natural disasters and humanitarian crisis responses.

By the mid-2000s enough statistical data existed to demonstrate that developmental aid had a dismal failure rate.<sup>13</sup> Mounting numbers of case studies documented the failures of the developmental aid system and fueled the argument that the developmental aid system, as currently constructed, was not successful. An excellent example of this type of study focused on Sida, the Swedish counterpart to USAID. In their systematic exploration of Sida, Clark C. Gibson and his associates discovered that much of the failure of Sida's developmental aid could be traced back to the structure of Sida as an institution.<sup>14</sup> The very structure of Sida was creating perverse incentives and

negative outcomes. Paramount among these was the Samaritan's dilemma. The Samaritan's dilemma is a situation whereby the Samaritan, in this case the donor, creates a perverse incentive for the recipient by rewarding the withholding of effort or material contribution.<sup>15</sup> The recipient gains more by doing less and the donor gains just enough to make the contribution worthwhile. Repetition of this dynamic over a number of years leads to beneficiary dependence on the donor and creates an environment in which beneficiaries never achieve true ownership or project sustainability. Gibson and his colleagues stop short of condemning developmental aid as an idea and make recommendations on how the various participants in the developmental aid system can correct inefficiencies and other deficiencies.<sup>16</sup>

Some critics, however, believe that the developmental aid system is flawed root to leaf. Among these is Gilbert Rist who has said that development as a concept is a product of Western Capitalism and premised on a belief system that is ethnocentric and paternalistic.<sup>17</sup> The current development aid system is documentably ineffective and has outlived its usefulness. Rist calls for a new paradigm that more equitably addresses the issues that gave rise to the idea of development but he unfortunately does not suggest in much detail what that paradigm might be.

Researchers like Rist mirror a growing popular sentiment that after seventy years and trillions of dollars spent in developing countries that there should be more evidence of actual development. Since 1945, the world has experienced several periods of economic expansion that have improved many national economies but which appear to have bypassed the developing world. Taxpayers, from whom donor governments collect

development aid dollars, are often frustrated by the poor return on their development investments.

The early 21st Century would seem to be a questionable time for donor nations to launch a new massive multi-year single-country developmental aid program. However, following the destruction of the Iraqi government in the 2003 Iraq war, the coalition that invaded Iraq had to do something to redevelop the country. Iraq was in need of not only economic development but also political and governmental development.

Much of what we know about the PRT program comes from primary documents and governmental as well as NGO reports. The Iraq PRT program was launched during a period of high domestic antiwar sentiment and agitation, fueled by the protracted execution of the war and scandals such as the mistreatment of prisoners at the Abu Ghraib prison and the revelations of the cover-up surrounding the fratricide death of Pat Tillman in Afghanistan. Secretary of State Condoleezza Rice inaugurated the first PRT in Iraq in November 2005.<sup>18</sup> According to Robert Perito, a researcher at the United States Institute of Peace who visited Iraq to review the PRT program, disagreements over the contents of the foundational Memorandum of Understanding between the Department of State and the Department of Defense delayed the first phase of the Iraqi PRT program by nearly twelve months.<sup>19</sup> Initially, there were ten Iraqi PRTs that departed significantly from the Afghan PRT model in that DoS, not DoD was the designated lead partner in the effort. Interdepartmental wrangling over administrative matters such as provision of support services and office supplies hampered the program from the beginning.<sup>20</sup> Lack of an operating budget caused much of the confusion in the early PRTs as the DoD attempted to pass costs for goods and services, frequently supplied by nongovernmental



contractors, along to the PRTs.<sup>21</sup> Perito's report criticized the structure and composition of the Iraqi PRTs stating that, "Operating in a war zone is not a State Department core competency," and recommended that the lead for PRT activities be turned over to the DoD following the Afghan model.<sup>22</sup>

In early 2007, President Bush announced the expansion of the Iraqi PRT program as a part of the surge of troops into Iraq to counter the insurgency and bring the period of active combat to an end. The number of PRTs was increased and a new type of PRT, the embedded PRT or ePRT, was introduced to work within a BCT at the municipal level of governance. The second phase of the Iraqi PRT program evolved over about a six month period as DoS recruited and trained the new staff for the additional PRTs while keeping up with the regular reassignment cycle for team members completing one-year tours begun in 2006. *The PRT Playbook*, published by the Center for Army Lessons Learned in September 2007, is an early document that laid out guidance and provided direction to PRT team members.<sup>23</sup> *The PRT Playbook*, "Chapter 2: Concept and Intent" provides a clear description of what the PRTs were expected to do including a description of the desired end state and a recommendation that PRTs "should design measures of effectiveness" that indicated the progress being made toward the program's goals.<sup>24</sup> "Chapter 3: Principles" cautions in a subsection heading that PRTs should focus on "Effects not Outputs."<sup>25</sup> The dominant idea was that only those effects that led to the attainment of the goals ought to be considered and that metrics of outputs or performance that had no measurable impact on stabilization and reconstruction should not be considered. A decrease in child mortality rates is given as an example of a metric that is an output of improvements to essential services, but which has no demonstrable link to an

increase in stability. As such it might be useful in a development context but not in the effort to increase stability.<sup>26</sup>

Also of interest in *The PRT Playbook* is Annex C which contains extracts from the February 22, 2007 Memorandum of Agreement between the Departments of Defense and State (MOA). The MOA delineates the relevant administrative responsibilities and roles between the two departments pursuant to the guidance of the President. Section 4, a, (iv) indicates that the Chief of Mission or the Ambassador was to exercise control over political and economic developments and that the Military Commander was to oversee security and movement of PRT personnel.<sup>27</sup> Interestingly, Section 4,b. includes directions for the assessment and rating of PRT team members as individuals but the MOA is silent on the subject of assessing the effectiveness of the PRTs as units or of the program as a whole.<sup>28</sup>

In January 2008, a group of graduate students enrolled in a workshop at The Woodrow Wilson School at Princeton University published a report that identified lessons learned in the Afghan and Iraq PRT Programs as well as recommendations about the future functioning of the programs. The report found that the Iraq PRT program was making only slow progress towards meeting its objectives.<sup>29</sup> The Wilson School report included a section on recommendations for improving performance. A number of the recommendations focused on the need to clarify objectives and to improve metrics collection as a means to gauging progress.<sup>30</sup> One recommendation in particular stands out. The first recommendation under the subheading “Interagency Cooperation in the Field” stated, “Like the PRTs in Iraq, all PRTs in Afghanistan should eventually be civilian-led.”<sup>31</sup> This is significant because Robert Perito advised the workshop and the

recommendation reverses Perito's position from the preceding year. The report concluded that the PRT Program lacked sufficient metrics and supporting data but that enough anecdotal evidence of success existed to keep the program going.<sup>32</sup>

In April of 2008, the Subcommittee on Oversight and Investigations of the House Committee on Armed Services published the findings of a six-month investigation that strongly criticized the PRT Programs in Iraq and Afghanistan.<sup>33</sup> The report concluded that interagency stovepipes hampered PRT operations and contributed to confused lines of accountability. The Subcommittee also noted that Congressional oversight of the executive branch in this instance also suffered from stovepiping.<sup>34</sup> The report concluded by stating that planners were not working quickly enough to maximize the efforts of the PRTs.<sup>35</sup> The subcommittee grouped its findings and recommendations into ten categories that broadly reflected the recommendations contained in the Wilson School report.

Numerous additional reports published by a variety of sources repeated these types of findings and recommendations through 2008. It is possible to read too much into this however, as the Iraq PRT program evolved slowly after its inception in October 2005 as DoD and DoS hammered out the details of what a PRT was supposed to be and do. Further, the so called "PRT surge" that accompanied the military surge in 2007 took several months to stand up because of the time needed to recruit and train team members. Most of the new team members arrived in Iraq in a series of waves over the course of 2007, not in a single surge, and some PRTs did not receive full staffing until early 2008. Many of the new hires went to newly created PRTs that were struggling with all the logistical and administrative tasks that accompany startup operations. Most of the reports published through mid-2008 reflect this state of affairs and make recommendations on

how to improve PRT operations. In addition, they all minimized or downplayed the important role that the Office of the Special Inspector General for Iraq Reconstruction (SIGIR) was already fulfilling.

Congress created SIGIR as an independent agency in October 2004 to monitor U.S. government reconstruction efforts. It provided regular oversight and reports on the PRTs from the earliest days of the program. In fact, SIGIR had made twelve specific recommendations for improving the PRT program in three separate special reports between October 2006 and October 2007.<sup>36</sup> In January 2009, SIGIR issued another special report and found that the U.S. Embassy in Baghdad's Office of Provincial Affairs (OPA) had in fact been making steady progress on its past recommendations. SIGIR reported that OPA had completed or closed out eleven out of its twelve previous recommendations.<sup>37</sup> Most significantly SIGIR found that one area in particular had improved since its previous report:

OPA has not consistently required the PRTs and ePRTs to develop and submit work plans that identify planned activities to address areas of weakness identified by the assessment system. This limits OPA's oversight of PRT activities and whether the PRT activities effectively address identified weaknesses at some locations. During the course of this review, OPA improved its procedures for preparing, submitting, and reviewing work plans.<sup>38</sup>

SIGIR made only two additional recommendations in that report, and issued only one additional report specific to the PRT program. This last report made an additional three recommendations, mostly concerned with financial accountability, but DoS took exception to the recommendations and officially registered its dissent.<sup>39</sup> DoS insisted that it had sufficient accounting mechanisms in place to adequately plan and make budgetary decisions. SIGIR and DoS continued to disagree on PRT and other reconstruction issues through the remainder of the PRT program. Prior to the start of the

interagency quarrel however, OPA made significant progress on closing SIGIR recommendations and SIGIR approved of the work and responsiveness of the PRT program.

In this chapter, I have reviewed a sampling of the literature related to developmental aid and the questions that persist regarding its effectiveness or utility. I have also examined primary documents relating to the Iraq PRT program and which created the rules under which it operated. In Chapter 3 I will discuss the Institutional Analysis Development Framework (IAD), the research methodology that I will use in Chapter 4 to analyze the Iraq PRT program. I hope that an analysis of the Iraq PRT program using the IAD will lead to a better understanding of how developmental aid efforts in conflict or post conflict environments can avoid becoming bound by their own institutional rules.

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<sup>1</sup>The World Bank, *Assessing Aid: What Works, What Doesn't, and Why* (Oxford: Oxford University Press, 1998), 6.

<sup>2</sup>David W. Ellwood, "The Marshall Plan: A Strategy That Worked," *Foreign Policy Agenda* 2, no. 1 (April 2006): 18.

<sup>3</sup>The International Monetary Fund, The IMF and the World Bank, <http://www.imf.org/external/np/exr/facts/pdf/imfwb.pdf> (accessed June 6, 2013).

<sup>4</sup>James Boughton, "Ten Events That Shaped the IMF," *IMF In Focus: A Supplement of the IMF Survey* 33 (September 2004): 5-6.

<sup>5</sup>Milton Friedman, "Foreign Economic Aid: Means and Objectives," *Yale Review* 47, no. 4 (Summer 1958): 500-516.

<sup>6</sup>USAID, USAID History, <http://www.usaid.gov/who-we-are/usaid-history> (accessed June 6, 2013).

<sup>7</sup>Peter T. Bauer, *Dissent on Development* (Cambridge: MA: Harvard University Press, 1972).

<sup>8</sup>Howard White, "The Macroeconomic Impact of Development Aid: A Critical Survey," *The Journal of Development Studies* 28, no. 2 (January 1992): 163-240.

<sup>9</sup>The World Bank, *Assessing Aid*, 115-119.

<sup>10</sup>*Ibid.*, 91.

<sup>11</sup>David Sogge, *Give and Take: What's the Matter with Foreign Aid?* (London: Zed Books, 2002).

<sup>12</sup>Roger C. Riddell, *Does Foreign Aid Really Work?* (Oxford: Oxford University Press, 2004).

<sup>13</sup>Gibson, 3.

<sup>14</sup>*Ibid.*, 131-159.

<sup>15</sup>*Ibid.*, 38-40.

<sup>16</sup>*Ibid.*, 223-234.

<sup>17</sup>Gilbert Rist, *The History of Development: From Western Origins to Global Faith*, 3rd ed. (London: Zed Books, 2008).

<sup>18</sup>Robert M. Perito, Special Report 185, *Provincial Reconstruction Teams in Iraq* (Washington, DC: United States Institute of Peace, March 2007), 1.

<sup>19</sup>*Ibid.*

<sup>20</sup>*Ibid.*, 3.

<sup>21</sup>*Ibid.*, 7.

<sup>22</sup>*Ibid.*, 10.

<sup>23</sup>Center for Army Lessons Learned (CALL), *The PRT Playbook*, <http://usacac.army.mil/cac2/call/docs/07-34/07-34.pdf> (accessed June 4, 2013).

<sup>24</sup>*Ibid.*, 6.

<sup>25</sup>*Ibid.*, 9.

<sup>26</sup>*Ibid.*

<sup>27</sup>*Ibid.*, 74

<sup>28</sup>*Ibid.*, 75.

<sup>29</sup>Nima Abbaszadeh et al., “Provincial Reconstruction Teams: Lessons and Recommendations” (The Woodrow Wilson School Graduate Workshop on Provincial Reconstruction Teams, Princeton University, Woodrow Wilson School of Public and International Affairs, January 2008), 15.

<sup>30</sup>*Ibid.*, 17.

<sup>31</sup>*Ibid.*, 16.

<sup>32</sup>*Ibid.*, 4.

<sup>33</sup>U.S. Congress, House Committee on Armed Services, Subcommittee on Oversight and Investigations, *Agency Stovepipes vs Strategic Agility: Lessons We Need to Learn from Provincial Reconstruction Teams in Iraq and Afghanistan.*, 110th Cong. 2nd sess., 2008, 55.

<sup>34</sup>*Ibid.*, 53.

<sup>35</sup>*Ibid.*, 55.

<sup>36</sup>Special Inspector General for Iraq Reconstruction, SIGIR 06-034, *Status of the Provincial Reconstruction Team Program in Iraq* (Washington, DC: SIGIR, October 29, 2006); Special Inspector General for Iraq Reconstruction, SIGIR 07-014, *Status of the Provincial Reconstruction Team Program Expansion in Iraq* (Washington, DC: SIGIR, July 25, 2007); Special Inspector General for Iraq Reconstruction, SIGIR 07-015, *Review of the Effectiveness of the Provincial Reconstruction Team Program in Iraq* (Washington, DC: SIGIR, October 18, 2007).

<sup>37</sup>Special Inspector General for Iraq Reconstruction, SIGIR 09-013, *Provincial Reconstruction Teams’ Performance Measurement Process Has Improved* (Washington, DC: SIGIR, January 28, 2009), 14.

<sup>38</sup>*Ibid.*, unnumbered page following coversheet.

<sup>39</sup>Special Inspector General for Iraq Reconstruction, SIGIR 09-020, *Provincial Reconstruction Teams: Developing a Cost Tracking Process Will Enhance Decision-Making* (Washington, DC: SIGIR, April 28, 2009), 12.

## CHAPTER 3

### RESEARCH METHODOLOGY

#### Introduction

This paper is concerned with the rules affecting the Iraq PRT program and how those rules generated negative outcomes and perverse incentives. This chapter discusses the methodological framework I have employed to analyze representational case studies drawn from the Iraq PRT primary evidence. Chapter 2 examined the ongoing debate over the utility of developmental aid. Since the PRTs were in large part developmental aid facilitators, reconstruction being a form of development, I have chosen to analyze the Iraq PRT program using the Institutional Analysis and Developmental Framework (IAD). Below, I will discuss the framework and explain how I will use it to analyze a number of case studies from which we can infer patterns of interactions.

#### Methodology

This study uses the Institutional Analysis and Development Framework (IAD) to examine the relationship between the Iraq PRT program and its outcomes. The IAD is a theoretical tool developed by Indiana University's Workshop in Political Theory and Policy Analysis.<sup>1</sup> The IAD framework is a multidisciplinary approach to analyzing developmental aid and other problems in public policy and economics. The IAD posits three levels of analysis; operational, policy-making/collective choice, and constitutional.<sup>2</sup> The operational level examines the ground-level day-to-day execution of a project or program. The policy making/collective choice level deals with the rules that govern the structures of the operational level. Finally, the constitutional level addresses who makes



the rules governing the collective choice level and how they make those rules. This study considered incentives at all three levels but focused primarily on the operational and collective action levels.

The IAD proposes a number of elements that should be common to all case studies considering rules and incentives which are: context, action arena, incentives, interactions, outcomes, and evaluations.<sup>3</sup> The analyst using the IAD framework works through these elements in order when developing his analysis. Context is composed of three parts. First are the physical or material conditions or environment. Next are the attributes of community, the social structures or cultures present in the environment. Rules-in-use are the final piece of the context. Rules-in-use include both formal rules and laws in the context as well as informal rules, customs, and practices along with taboos and prohibitions.<sup>4</sup>

The action arena emerges from the analysis of the context. It is composed of two parts, the actors and the action situation. Actors are either individuals or corporate bodies about whom the analyst makes assumptions regarding motives, beliefs and values, abilities, and decision making strategies.<sup>5</sup> Analysts chose from a number of available models to conduct their analyses, such as the rational choice model which is most common, the bounded rationality model, the game theory model, or any number of competing models depending on the needs of the study or the interests of the analyst.<sup>6</sup> Within any action arena, there are a number of actors who interact with each other and their environment thus creating an infinite number of actions which impact the question under consideration. A further discussion of actors follows below. The IAD framework analyst narrows down the number of actions and results by identifying the action

situation. The action situation includes the various actors, their roles, the rules-in-use governing them, as well as the actor's awareness of their abilities and limitations and their motivations.<sup>7</sup>

Incentives are both the motivations and the payoffs or rewards that drive each actor's decision making process within the action arena and which drive the interactions of the actors. A number of action situations may yield similar results which allow the analyst to identify patterns of interactions yielding various outcomes.<sup>8</sup> The analyst must then apply evaluative criteria to those outcomes to make a value judgment on them. The most important criteria used in evaluating developmental aid are efficiency, accountability, sustainability, and equity.<sup>9</sup>

The number and variety of actors in an action arena becomes critical when applying the IAD framework to questions relating to developmental aid. Any developmental aid action arena will have multiple actors. Gibson and his associates have identified eight actors typically involved in developmental aid:

1. the donor government;
2. the recipient government;
3. other donors;
4. the donor's international development agency;
5. sectoral ministries and agencies within the recipient government;
6. third-party implementing organizations, including NGOs and private consultants and contractors;
7. organized interest groups and civil society organizations within the donor and recipient countries; and finally
8. the target beneficiaries.<sup>10</sup>

Gibson and his associates have developed a useful tool for mapping the actors involved in developmental aid. They call their mental map the international development cooperation octangle or the octangle (see figure 1).

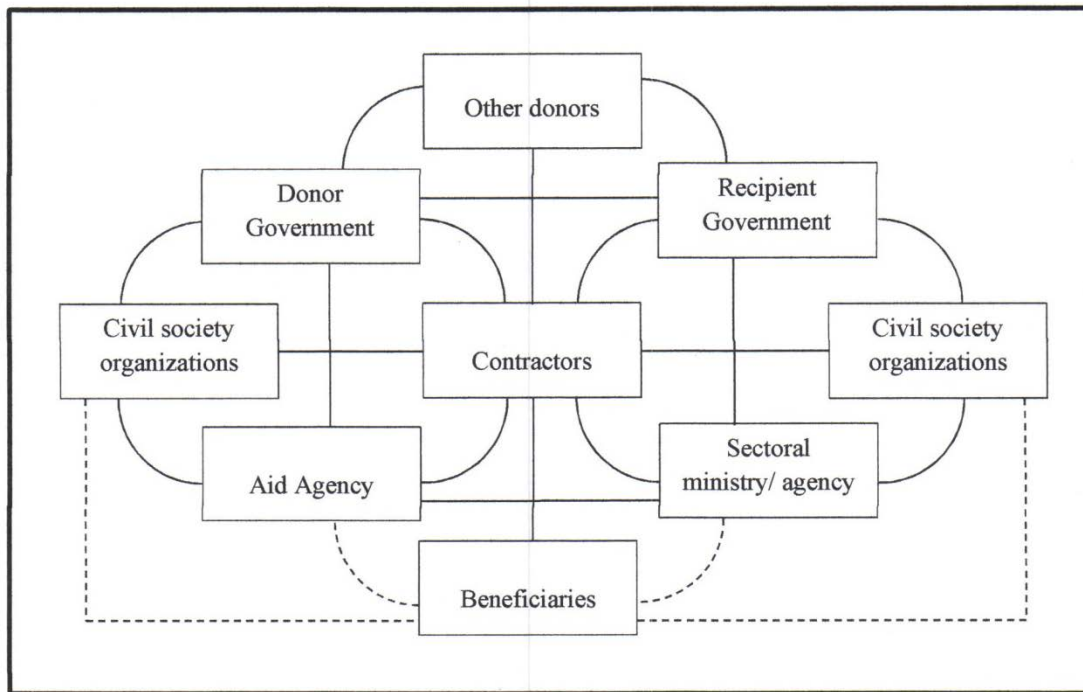


Figure 1. The international development cooperation octangle

Source: Clark C. Gibson, Krister Andersson, Elinor Ostrom, and Sujai Shivakumar, *The Samaritan's Dilemma: The Political Economy of Development Aid* (Oxford: Oxford University Press, 2005), 64.

The actors are linked to each other in a complex network and the various incentives that motivate and rules that govern the actors impact not only the relationships with other actors, but the outcomes of the aid projects or programs. Gibson maintains that, “the sustainability of aid depends on how incentives structure interactions between or among the key corporate and individual actors involved in developmental cooperation.”<sup>11</sup> Most of the actors in the octangle are in fact corporate actors. Governments, ministries, aid agencies, and NGOs are all groups of people or organizations. The IAD framework draws a distinction between organizations and institutions. Institutions are societal systems that include organizations and the rules that

govern the individual members both internally and in relation to other groups or individuals.<sup>12</sup> In IAD framework parlance rules are, “shared understandings among those involved that refer to enforced prescriptions about what actions (or states of the world) are required, prohibited, or permitted.”<sup>13</sup>

The rules governing institutions tend to produce a variety of negative outcomes or “core dysfunctional problems.”<sup>14</sup> The problems fall into two categories, motivation problems and information asymmetry problems.<sup>15</sup> Motivation problems occur when the actors do not have adequate motivation to act in a manner that produces mutual benefits.<sup>16</sup> Several motivational problems exist, but only one of them, rent-seeking, is evident in this study. Rent-seeking is an economic activity in which an actor accrues to himself financial benefits without contributing to the creation of additional wealth.<sup>17</sup>

Information asymmetry problems are those that arise from an imbalance of information.<sup>18</sup> In the case studies below, we will encounter moral hazard problems, principal-agent problems, signaling problems, and adverse selection problems. Simply defined, a moral hazard is a situation in which one party to an agreement engages in risky behavior, the potential costs of which will be borne by another party.<sup>19</sup> Principal-agent problems are those where a principal experiences difficulty in motivating one of its representatives or branches to act in the best interests of the principal. Instead the agent acts in a way that maximizes some other actor’s best interests.<sup>20</sup> Signaling problems are informational asymmetry problems in which at least one party to an agreement transmits information about itself that turns out to be inaccurate, false, or incomplete, regardless of the motive or intent of the sender.<sup>21</sup> Signaling problems can lead to additional problems when the missing information becomes available in the action arena. The closely related

adverse selection problem occurs when both parties to an agreement do not share the same information, resulting in an information asymmetry. When this happens, the parties tend to select bad products.<sup>22</sup> These five problems, one motivational and four information asymmetries, occur a number of times in the case studies in Chapter 4.

This study applies the IAD framework and the octangle to the U.S. Iraq PRT program and examines how the rules governing the interactions between actors led to perverse incentives and negative outcomes. It is beyond the scope of this study to attempt a comprehensive analysis; rather I have tried to provide a sampling of the types of outcomes that the PRT programs has produced by examining several different projects and programs related to the Iraq PRT program. I have chosen four case studies to analyze using the IAD framework. I used the bounded rationality model in my analysis of the case studies. The bounded rationality model does not assume that actors have complete or perfect knowledge, rather that they make the best decisions they can, given the information that they have at the time that they make their decisions.<sup>23</sup>

In this study, I have viewed the individual PRTs as agents of the donor nation's developmental aid agency within the octangle map of the actors involved in developmental aid. The structure of the PRTs was multifaceted, involving multiple chains of command, numerous sources of funding, and a variety of local environments. However, within each action arena as defined by the IAD framework, the PRTs functioned as the local agents of the U.S. Government's broad developmental aid efforts. Traditionally this is USAID's role. In the case of the Iraq PRT program, the developmental aid efforts of the U.S. government were so vast that USAID was only one participant. The departments of Defense and State both functioned as developmental aid

agencies individually and through their joint Iraq PRT program. Indeed, personnel from a number of U.S. government agencies as well as temporary contracted employees staffed the Iraq PRTs. Viewing each of these as independent or additional actors would have unnecessarily complicated the octangle and led to a multiplication of actors where an abundance of actors already exists.

### Conclusion

This chapter has given an overview of the IAD framework and the international development octangle. It shows how an analyst can apply the IAD to the action arenas where the rules governing actors can produce negative outcomes and perverse incentives. In the following chapter, I will analyze four Iraq PRT case studies using the IAD framework with particular attention paid to the rules governing the PRTs and the outcomes produced in the six individual action situations.

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<sup>1</sup>Gibson, 24.

<sup>2</sup>Ibid., 24.

<sup>3</sup>Ibid., 25-26.

<sup>4</sup>Ibid., 25-26.

<sup>5</sup>Ibid., 27.

<sup>6</sup>Ibid., 27.

<sup>7</sup>Ibid., 31.

<sup>8</sup>Ibid., 27.

<sup>9</sup>Ibid., 25.

<sup>10</sup>Ibid., 63.

<sup>11</sup>Ibid., 63.

<sup>12</sup>Ibid., 33.

<sup>13</sup>Ibid., 33.

<sup>14</sup>Ibid., 35.

<sup>15</sup>Ibid., 35 and 41.

<sup>16</sup>Ibid., 35.

<sup>17</sup>Ibid., 53-54.

<sup>18</sup>Ibid., 41

<sup>19</sup>Ibid., 42.

<sup>20</sup>Ibid., 43.

<sup>21</sup>Ibid., 45.

<sup>22</sup>Ibid., 45.

<sup>23</sup>Ibid., 28.

## CHAPTER 4

### ANALYSIS

#### Introduction

The preceding chapter discussed the Institutional Analysis and Development framework (IAD) I used to analyze the Iraq PRT Program and some of the incentives for the various actors in the international development cooperation octangle. This chapter will demonstrate that the Iraq PRT program, like many other developmental aid programs and projects, was riddled with a host of negative and perverse incentives. I will begin by describing a typical PRT and offer a brief overview of how the PRTs operated. Then I will provide examples in the form of brief case studies that illustrate how the structure of the PRT program produced negative outcomes.

I have tried to avoid drawing conclusions from PRT reporting documents that had not previously been subjected to a review of some sort. PRTs regularly self-reported on their activities through cables and weekly activity reports. However it is the nature of such reporting to emphasize successes and to gloss over or omit efforts that were less successful. In an effort to identify a suitable list of candidates for inclusion, I turned to programs that either SIGIR or USAID's Office of Inspector General (USAID/OIG) had reviewed. Both offices completed a number of investigations, audits, and reviews of developmental aid programming conducted during the duration of the Iraq PRT program. The Inspector General documents provided a ready source from which to draw examples that had been subjected to as rigorous and objective a scrutiny as conditions in a frequently kinetic environment permitted.



I have selected four case studies from across the PRT experience that are broadly representative of the types of programs and projects that were typical of the Iraq PRT program. The four case studies represent three types of programs or projects. The first two cases examined aspects of funding for the Iraq PRT program. The Commander's Emergency Response Program (CERP) provided a significant source of funding for the PRTs from the Department of Defense (DoD) side of the partnership. The Quick Response Fund (QRF) similarly provided a source of funding, albeit significantly smaller, from the Department of State (DOS). The second category I reviewed was governance. USAID administered the Local Governance Program (LGP) through its contracting partner RTI International (formerly Research Triangle Institute) and was the primary provider of the PRT team members hired to facilitate provincial and local government capacity building. The third category is economic development for which I selected the Basrah Modern Slaughterhouse project. The U.S. Army Corps of Engineers administered this project in cooperation with the Basrah PRT.

#### Iraq PRT Program Structure

The first years of the Iraq PRT program were difficult as both DoS and DoD officials struggled to synchronize two very different agencies with no example to follow. The publication of National Security Presidential Directive 36, United States Government Operations in Iraq, dated May 11, 2004 (NSPD 36), established the authority for the PRTs in Iraq, although the term PRT was not used in the directive.<sup>1</sup> About a dozen other memoranda of agreement, presidential letters of instruction, and regulations followed NSPD 36 and sought to create an institutional context in which the PRTs were to operate.

The United States had developed a PRT program in Afghanistan before it invaded Iraq in 2003 and U.S. Ambassador Zalmay Khalilzad who served in Kabul from 2003- 2005 brought the PRT idea to Iraq with him when he was assigned to Baghdad in 2005.<sup>2</sup> However, the Iraqi PRTs had little in common with their Afghan predecessors.<sup>3</sup>

Although ten PRTs had been established in Iraq in 2005 and 2006, President Bush significantly expanded the program in January 2007 when he announced the “New Way Forward,” a change in policy in Iraq that came to be known as “the Surge.”<sup>4</sup> The “New Way Forward” included not only additional ground troops, but also renewed emphasis on the Iraq PRT program. The New Way Forward listed two coalition elements as key factors in the new approach. They were to “Expand and increase the flexibility of the Provincial Reconstruction Team (PRT) footprint,” and to “Focus U.S. political, security, and economic resources at local level to open space for moderates, with initial priority to Baghdad and Anbar.”<sup>5</sup>

In February 2007, the two departments signed a new Memorandum of Agreement that resolved a number of outstanding issues that had hampered PRT operations in 2005 and 2006. Chief among these issues had been provision of life and office support services as well as security and transportation for PRT personnel.<sup>6</sup> With such mundane but important administrative matters out of the way, the DoS turned to recruiting team members to fill the slots in the expanded program.

Most of the PRTs were located on Forward Operating Bases and partnered with a Brigade or Regimental Combat Team (BCT/RCT). The original PRTs were envisioned as having about seventy members, thirty of whom might be locally employed Iraqis. Of the

remainder, half were to be civilian and half military. The PRT Team Leader was a Foreign Service Officer, usually a member of the Senior Foreign Service, while the Deputy Team Leader was an Army colonel or lieutenant colonel assisted by a military staff to run the office.<sup>7</sup> State Foreign Service Officers also filled the slots of Provincial Action Officer and Public Diplomacy Officer, along with Foreign Service colleagues from USAID and Agriculture and a Justice Department officer filling their respective subject matter expert slots. A Governance team of between one and three contractors supplied through a USAID contract with RTI International rounded out the civilian side. The Army provided a Multi-National Force Iraq (MNFI) Liaison Officer, an Engineer from the Gulf Region Division of the U.S. Army Corps of Engineers, a DoD contract hired Bilingual-Bicultural Advisor and a complement of Civil Affairs soldiers. If the Army was not providing a Military Movement Team for the PRT from the ranks of the BCT then a contracted Protective Security Detail would be added.<sup>8</sup> In fact few PRTs achieved this ideal; instead they developed organically to meet local needs or in response to available staffing.<sup>9</sup>

In theory, the PRTs did not function in isolation. Military members reported through their chain of command to MNFI. The civilian side was accountable to a dizzying array of home agencies and contract providers as well as to the OPA and the various desk officers and Embassy sections in Baghdad. Despite this wealth of accountability on paper, the reality is that very little programmatic direction and coordination came out of OPA and PRTs collaborating with their host BCTs worked to find local solutions to local problems.<sup>10</sup>

Additionally, all of the civilian agencies experienced varying degrees of problems with internal recruiting that led to the assignment of junior officers and retirees to challenging and physically demanding jobs. Most resorted to hiring contractors to fill vacant PRT positions.<sup>11</sup> While contractors could be subject matter experts, most did not have an adequate institutional knowledge of the DoS or USAID and consequently spent significant portions of their time familiarizing themselves with not only their new surroundings but with their new employers as well. Few PRT members had the necessary language skills to work without interpreters, and most received only between one and three weeks of generalized training prior to their assignments. Most PRT team members set off for Iraq with little location-specific information on what to do or how to do it.<sup>12</sup>

When the team members arrived in Iraq, they quickly discovered that program development was not subject to a countrywide standard operating procedure. The MOAs and other foundational documents clearly defined how the two departments were supposed to interact with each other but did little to expand upon the President's broad direction in The New Way Forward. The February 22, 2007 MOA stated that the PRT program's purpose was to, "bolster moderates, support U.S. counterinsurgency strategy, promote reconciliation and shape the political environment, support economic development, and build the capacity of Iraqi provincial governments to hasten the transition to Iraqi self-sufficiency."<sup>13</sup> The individual PRTs were by design left to their own devices when it came to program development in an effort to reduce micromanagement from Baghdad or even Washington, DC.<sup>14</sup> Initially, under MNFI, the Coalition Provisional Authority (CPA), and then the Embassy in Baghdad, most of the

decisions and planning had come from the top down, a structure frequently referred to as stovepiping. The PRT creators wanted the PRTs to be more responsive to local conditions and to have the freedom to consult with provincial partners and to creatively experiment with responses to local situations.<sup>15</sup> Decentralized decision-making with a civilian face was the model for the PRTs. Team members developed programs and projects at the local level and then sought funding for them from centralized funding program sources.

### Funding Programs

The PRTs did not receive program funding directly, instead they submitted proposal requests to administrators of a number of funds designated for projects of a particular nature, among them the Economic Support Fund, the Development Fund for Iraq, and the Iraq Relief and Reconstruction Fund. Over time, two other funds became increasingly important for PRT-designed programming, CERP and QRF. Analysis of both of these funding programs shows evidence of institutional rules that produced information asymmetry and motivation problems. CERP was plagued by both moral hazard and adverse selection problems while the QRF was beset with principal-agent and rent-seeking.

CERP was a DoD program administered by American military commanders to respond to immediate local problems and crises directly affecting the Iraqi people. CERP provided funding to BCTs and PRTs to carry out projects and programs and was governed by the DoD regulations and after its publication in 2009 the CALL Handbook, *Commander's Guide to Money as a Weapons System* (MAAWS).<sup>16</sup> CERP was original envisioned as a counterinsurgency tool to assist with winning the hearts and minds of the

Iraqis. Commanders could use up to \$25,000 from the fund for urgent construction and repair projects, micro-grants to facilitate new commercial enterprises, and even to make condolence payments. CERP allocations from 2004 through 2011 topped \$4 billion with the largest annual tranches disbursed from 2005 through 2009 . Over \$3.7 billion of that money was obligated between 2004 and 2011.<sup>17</sup>

Over the years, however, pressure mounted to spend all the allocated money and CERP program funds increasingly funded projects larger than \$25,000. SIGIR found in a January 2008 report that a small number of expensive projects (\$500,000 or greater) accounted for a large percentage of the total money allocated.<sup>18</sup> The report found that “While the CERP program guidance emphasizes small-scale, urgent humanitarian relief and reconstruction projects, the program devotes a major portion of its funding to larger-scale, more expensive projects, many estimated to cost over \$500,000 in value.”<sup>19</sup> The report acknowledged the change in the scope and duration of many CERP projects due to changing conditions on the ground in the provinces, but made no judgment about the fact that many of the projects were multi-year undertakings that could hardly be categorized as emergency responses. A second SIGIR report additionally found that program managers were increasingly using CERP funds for civil capacity development projects rather than for projects aimed at countering insurgency.<sup>20</sup> In relation to these larger projects SIGIR did find, “management weaknesses related to maintaining project files; and, despite some improvements, continuing challenges in planning for the transition of completed projects to the Iraqi people and in fostering long-term sustainment of

completed facilities.”<sup>21</sup> In other words, CERP funded projects were at risk of failure after they were turned over to the beneficiaries.

One of the problems that aid agencies face is the need to obligate funds that legislators have allocated. Gibson has asserted that, “A nearly universal pressure exists within almost all development agencies, however, to spend the money that is allocated in one budgetary cycle,” out of fear that legislators will cut their funding if all of it is not spent.<sup>22</sup> This appears to have been the case with CERP funds until 2011 when the USF-I had to return money to the DoD because it could only spend \$66.5 million of the \$100 million that it had been authorized in the FY 2011 budget.<sup>23</sup> Despite this failure, for budget constrained FY 2012, with the end of OIF approaching, the DoD requested \$25 million for Iraq CERP even though the Status of Forces Agreement between Iraq and the U.S. called for U.S. troop withdrawal by December 31 2011.<sup>24</sup> Following its inability to spend \$100 million in FY 2011, it was still planning the same quarterly rate of CERP spending for FY 2012. Thus, in an environment where it was increasingly difficult to obligate all allocated funds, PRTs and BCTs collaborating as aid agents had incentives to green light larger projects. However, larger projects take more time and require greater vigilance in their oversight, both of which proved challenging for CERP project managers. The relatively transient nature of BCTs with twelve to eighteen month deployments and the ever changing roster of PRT team members whose annual assignment and contract cycles bore no relation to their military counterparts meant that longer term projects might pass through multiple hands between design and completion.<sup>25</sup> Loss of competent oversight by the PRT contributed to gaps in record keeping, missed

inspections, and other enforcement measures. SIGIR stated that these problems led to, “inadequate CERP project file maintenance, we believe they also highlight the importance of maintaining up-to-date project files in order to reduce the learning curve for incoming personnel and improve ongoing project management.”<sup>26</sup> Larger projects were risky not only because of their high dollar amounts but because their size made them more difficult to oversee and decreased the likelihood of successful transfer to the ultimate beneficiaries.

The high degree of risk associated with these types of CERP projects is an indicator of moral hazard. PRTs, acting as the octangle aid agency, had an incentive to engage in high risk behavior by green-lighting overly large and expensive programs for which they lacked adequate oversight mechanisms. SIGIR found that in a series of CERP projects conducted at Baghdad International Airport personal ambition was a motivating factor for CERP project personnel who said that they “wanted to complete as much as possible during their tours in Iraq.”<sup>27</sup> The wording here is interesting in that it implies a quantitative approach, completing “as much as possible,” without reference to the quality of what is accomplished.

Gibson and his co-authors discuss a similar situation in their case study on Sida, Sweden’s aid agency. The authors conducted a series of interviews with Sida staff and discovered that while Sida had highly motivated and committed staff, the majority of the staff did not believe that the success or failure of the projects for which they were responsible directly impacted their careers.<sup>28</sup> They found further that there existed at Sida pressure to “move the money,” and that Sida staff were not sufficiently motivated by the



long term sustainability of projects because of that pressure.<sup>29</sup> No similar survey of the motivations and perceptions of the CERP project managers at Baghdad International Airport exists, but we observe similar results. SIGIR drew the conclusion that over a four year period at Baghdad International Airport, “24 projects valued at \$16.1million have had generally unsuccessful outcomes and these funds are at risk of being wasted without further action.”<sup>30</sup> The potential costs of the failures of those projects however were not born by the CERP project managers because they had all moved on to other assignments before the projects were completed. They were trying to “move the money” and no institutional mechanism was in place to hold them accountable for unsustainable or failed projects.

The short window available to complete work during a rotation to Iraq also led to information asymmetry problems. PRTs and CERP project managers attempted to overcome project continuity problems by selecting projects that PRT members could identify and execute quickly and easily. Success bred imitation and PRT members developed a cookie-cutter approach, using the same basic format to duplicate successful projects. However, defining success became a problem as the various actors in the octangle had differing perceptions of what made a project successful. Let us consider in detail one frequently used cookie-cutter type project, school construction, and examine the incentives for the relevant actors in the octangle.

School construction in much of the developing world has shifted from the traditional construction techniques favored through the mid-1980s to modern construction techniques by 2002.<sup>31</sup> School construction and rehabilitation projects in Iraq

have followed this trend. Each of the school construction projects that SIGIR visited for on-site assessments, and for which assessment reports are listed on the SIGIR website, include either technical language on, or photographic evidence of, modern concrete construction techniques.<sup>32</sup> The costs are relatively low and build times are usually short. Seven of the nine schools mentioned above were CERP projects initiated by American PRTs and the average cost was \$267,000.<sup>33</sup> In another example, SIGIR reports that school construction and rehabilitation projects in the Rusafa political subdivision of Baghdad were generally under \$100,000.<sup>34</sup> PRT members as agents of the development agency have an incentive to promote school construction projects because they are quick and provide a good metric, X number of schools constructed. The U.S. is the donor government and its belief that education can be used as a counterinsurgency and democracy building tool is its motivation. The local residents, the intended beneficiaries may have collaborated closely with the PRT team to plan and build the school seeing a new school as an incentive.

However, both the recipient government and the provincial ministry of education may have good reasons to be unhappy with the new school. This might be due to a lack of teachers available to staff the school, because it was built in a village that did not have sufficient population to require their own school, or because the construction was substandard.<sup>35</sup> The school stands empty, the local population has a persistent reminder of perceived local government failure, and the provincial ministry of education must hear a constant stream of complaints from dissatisfied citizens about its neglect of the

community. Further, potentially hostile actors might appropriate the vacant school for other uses.

The problem of the construction of schools that beneficiaries will never use is an example of an information asymmetry problem known as an adverse selection problem. In the school construction example discussed above, the omission of one of the IAD octangle actors that should have been involved in the process aggravated the problem. Initially, the provincial ministry of education had no information about the project at all.

A final problem with the use of CERP funds by PRTs is that it is difficult to measure their effectiveness in meeting their initial goals. By focusing on the number of projects completed or the number of dollars allocated, actors on the donor side of the octangle can mistakenly assign too much value to such measures of performance. However, if the true objective is something that defies simple measurement, say improving education in a province, then a simple count of the number of schools built is not a measure of effectiveness. This is especially true if the schools prove to be unsustainable by, or a burden to the beneficiaries. Unfortunately, PRT-designed CERP-funded school construction projects proliferated in Iraq, especially in the early years of the program because of the incentives to the PRTs, the donor's agents.

In considering the PRT experience with CERP funded projects, we must conclude, as did SIGIR, that the loose oversight of project design and the CERP approval process combined with the lack of coordination between PRT members and beneficiaries and led to ineffective use of an immeasurable but significant amount of developmental aid money.<sup>36</sup> The problems that SIGIR identified can be understood as moral-hazard and

adverse selection problems that resulted from incentive structures inherent in the rules governing both PRTs and CERP itself.

DoS also had an aid fund analogous to CERP called the Quick Response Fund (QRF). QRF had two components QRF State (QRF-S) and USAID's Iraq Rapid Assistance Program (IRAP). OPA, at the Embassy in Baghdad, nominally oversaw both programs but was more intimately involved with QRF-S. QRF-S disbursed funds up to \$25,000 to PRTs who submitted project requests with a short window of opportunity for project completion. OPA disbursed the QRF-S funds and PRTs could usually start approved projects within a week to ten days after reviewal by committees in Baghdad and Washington. A USAID contractor administered the IRAP which was responsible for grants between \$25,000 and \$500,000.

SIGIR looked at both parts of the QRF program several times and found that persistent problems plagued both through the end of the Iraq PRT program. In a January 2009 report, SIGIR found that both QRF components lacked effective means for assessing outcomes and also that serious questions existed regarding unintended outcomes, sustainability, and effectiveness as well as relevancy and impact.<sup>37</sup> This was a serious problem for a program that was responsible for \$135 million dollars and it is similar to the problems discussed above in relation to CERP.

Of further concern to SIGIR was the cost associated with administering the USAID IRAP contract. SIGIR reported that USAID's estimated administrative costs associated with the contract were "approximately \$.61 per \$1.00 in grants disbursed as of January 20, 2009."<sup>38</sup> When administrative costs are in such an elevated range it is an

indication that something is amiss. In this case, several actors benefited from organizational incentives that were tantamount to rent-seeking.

Both the main USAID IRAP contractor and its subcontractors benefited from rent-seeking behavior. Obviously, the contractor was receiving a financially lucrative package of benefits to oversee the program and only a small fraction of those costs created wealth in the Iraqi economy. Further, the program was so large that the IRAP contractor hired subcontractors to perform the local disbursements of the grants. SIGIR reports that the contractor paid an 8 percent commission to subcontractors to disburse the grants to beneficiaries.<sup>39</sup> At between \$2000 and \$40,000 per grant, subcontractors received substantial incentives to disburse grants quickly. This represents a nearly textbook example of rent-seeking behavior.

USAID itself had institutionally structured incentives to create an environment favorable to rent-seeking behavior. USAID had only about 1000 officers to cover its worldwide mission, a number insufficient to meet the demands imposed by the PRT program and the increase in staffing at the Embassies in Baghdad and Kabul.<sup>40</sup> By contracting out the IRAP, USAID maintained nominal control over a significantly expanded budget providing increased prestige and clout within bureaucratic circles. At the same time, it husbanded its scarce human resources for service elsewhere providing a maximized gain for minimal output. This is an example of a principal-agent problem. In this case, the U.S. Government was the principal and USAID its agent. USAID farmed out responsibility for the IRAP to a contractor and failed to implement adequate control measures to keep administrative costs low and otherwise oversee the contract. USAID

did so in a manner that protected its own operations and budgets while failing to work towards the best interests of the principal, which in this case would have been the lowest possible administrative costs. Because of this failure, fewer developmental aid dollars made it to the beneficiaries.

Both the QRF and CERP programs represent a lopsided octangle with almost all of the power and control as well as a large portion of the incentives accruing to the donor and contractor sides of the octangle. In this case, a lack of significant input from the recipient country government and beneficiaries resulted in ineffective programing, unsustainable projects, and waste of developmental aid money.

#### The Local Governance Program

A second PRT program that produced unintended outcomes as a result of perverse incentives was USAID's Local Governance Program (LGP) which provided contract employees to the PRTs to serve as members of the individual PRT Governance Teams. USAID contracted with RTI International to serve as the contracting agent for the LGP through two contracts awarded in 2003 and 2005 and valued at nearly \$600 million.<sup>41</sup> RTI hired a variety of civilians with a wide range of experience in local and federal government as well as private sector enterprise and academia to serve as PRT Governance Team members. These Governance Team members served as advisors to the various provincial and local governments and were charged with coaching, teaching, training, and mentoring both elected local officials and their civil service staff.<sup>42</sup>

The LGP was supposed to strengthen provincial and local governments, the sectoral ministry or agency actors in the IAD octangle. The provincial and local

governments functioned as beneficiaries of PRT developmental aid. This blending of two of the eight octangle actors requires only a slight adjustment to our understanding of the IAD framework. We must see the provincial and local governments not as beneficiaries of the aid project or program itself, but merely as intermediaries or conduits. The ultimate benefits of better governance deriving from the LGP would devolve to the local and provincial populace, the primary beneficiaries. USAID intended the \$600 million LGP to improve provincial and local government performance by cooperatively developing a framework of democratic governance and improved provision of public sector services while concurrently building or strengthening civil society organizations through programmatic training.<sup>43</sup>

USAID and RTI struggled to meet the stated goals of the LGP. In October 2008, after USAID had spent or obligated over \$513 million of the LGP contract, SIGIR found that USAID could not demonstrate that the LGP was meeting the objectives of the program.<sup>44</sup> The SIGIR report highlighted patterns of behavior that can be categorized as rent-seeking and moral hazard. The SIGIR report criticized USAID's oversight of, and RTI's accounting for, the LGP's first four years and it identified two specific areas of concern. First, USAID did not establish a system to identify objectives for the LGP, nor did it identify a method for assessing the outcomes of the program.<sup>45</sup> Second, RTI did not effectively account for the money that it was spending on the LGP. RTI reported on the aggregate costs of its various projects instead of using individual activity cost reporting.<sup>46</sup> Because of these circumstances, SIGIR concluded that it was impossible to determine if

the U.S. Government was receiving adequate value for its development dollars. Both of these practices are moral hazard problems.

To restate from chapter 3, a moral hazard is a situation in which one party to an agreement engages in risky behavior, the potential costs of which will be borne by another party. Risk may be undertaken either willfully, to maximize benefits to one self, or unintentionally. It appears that USAID and RTI both participated in unintentionally risky behavior motivated by the incentives inherent in their organizational operating structure. Both organizations stood to lose little or nothing by their actions. The risk in these instances was borne by other parties, primarily the U.S. Government which in its role as donor government risked funding a program with outcomes that lacked value. Neither USAID nor RTI intended fraud or waste, yet both organizations followed logical courses of action in which the LGP spent a large amount of money but produced no demonstrable or quantifiable results.

USAID's failure to establish objectives for the LGP and a means by which to assess the program's outcomes followed logically from how administrators created and structured the program. Congress funded the LGP through six different appropriations.<sup>47</sup> USAID assigned the two LGP contracts as cost-plus-fixed fee contracts which are "contracts that require the contractor to provide a specified level of effort, over a stated period of time, on work that can be stated in general terms only."<sup>48</sup> SIGIR noted that according to the Federal Acquisition Regulation Part 16.306(a), cost-plus-fixed fee contracts entice contractors to overcome perceived high risk projects, but that cost-plus-fixed fee contracts provide the contractor with few incentives to ensure costs remain



low.<sup>49</sup> So from the very start the LGP had characteristics of a moral hazard problem. The LGP contracts guaranteed RTI a fixed payment for its services, plus the costs associated with service provision merely for providing the effort stated in the contract. The contracts permitted RTI to engage in risky behavior the costs of which were over and above its fee under the contract and for which USAID was to reimburse it through a regular system of expense accounting. USAID's failure to create a system for identifying objectives and assessing outcomes for the LGP followed logically from the cost-plus-fixed fee contract format of the contracts. As noted above the cost-plus-fixed fee contract is suitable when the work to be performed can be stated only in general terms.

SIGIRs second concern, that RTI was not properly accounting for its work by reporting on aggregate efforts instead of individual activities, indicates that RTI was not even complying with the general terms of the contract. SIGIR draws heavily on reports submitted by USAID's own Regional Inspector General which found that USAID did not compel RTI to meet performance reporting benchmarks as required by the contracts.<sup>50</sup> Further, even when RTI did submit reports the reports did not specifically link RTI's work to any measurable outcome. For example, RTI reports indicated that it had conducted 2,214 training activities over several reporting periods. The training activities fell into four categories that ranged from training modules conducted in individual provincial government offices to region-wide conferences and workshops. However, RTI's report did not link any of the training events to a specific outcome beyond completion of the training module nor did it group training events by like kind.<sup>51</sup> These deficiencies reflected the realities of the rules in use in Iraq during the time period rather

than requirements laid out on paper in Washington at the time of the assignment of the contracts.

The U.S. mission in Iraq seems to have been in a nearly perpetual state of reinvention in its first four years. The mission began as a military operation, evolved into the controversial Coalition Provisional Authority which evolved into the U.S. Embassy in Baghdad, and saw frequent turnover of both civilian and military leadership at all levels. During this period, USAID-Mission Iraq focused on daily operations rather than administrative details.<sup>52</sup> In such an environment, it made sense for RTI to focus more on doing than on reporting. In fact, in the early years of the LGP, RTI encountered all the details associated with a startup operation such as recruiting and training employees to serve on the various PRT Governance Teams. Once RTI Governance Team members arrived at their designated PRTs they not only needed time to design programs and activities that made sense in the local context, they had to make connections with Iraqi counterparts and develop mutual trust relationships, a task complicated by the number of military personnel actively soliciting the attention of the same Iraqis for their own programs and projects. The number of projects on which to report was small because they were still being initiated.

A further complication was a split chain of command or accountability. Once the Governance Team members arrived at their assignments, the reporting and operational demands of their PRT Team Leaders competed with the demands of their RTI employers or of USAID in remote Baghdad or the United States. This is especially important in light of USAID-Mission Iraq's own administrative turnover. From about mid-2003 through

mid-2005, five cognizant technical officers (CTOs) in the USAID-Mission Iraq worked on the LGP contracts, contributing “to inefficiencies and lapses in program management.”<sup>53</sup> On average, each CTO spent less than five months working with the contract before replacement. SIGIR found no record of more than one CTO at time ever having been assigned to monitor the contracts in the first four years of the LGP.<sup>54</sup> The rate of turnover meant that the CTOs had little familiarity with the contracts and the SOPs of the office let alone daily life in a highly kinetic insurgency environment. The fact that only one CTO was responsible for the actions of twenty-nine PRT Governance Teams meant that the CTO focused on the ensuring that RTI was making the required effort over the specified time. Reviews of reports were cursory at best and pro forma at worst. USAID’s minimal staffing of Mission Iraq was a rational response to ongoing recruiting problems during this period in which USAID was rapidly expanding operations in Iraq and Afghanistan.<sup>55</sup> USAID had ample incentive to understaff Mission Iraq. By doing so it ensured that a the highest number of its other offices remained operational even if they too were understaffed. The resulting inefficiencies and lapses in LGP enforcement in which RTI reported on aggregate rather than individual activities were unintended consequences.

Administrative reporting by the Governance Teams was minimalist and focused primarily on what types of things the team had done, such as the number of training events that it conducted. Absent were the links to how those training events advanced the stated goals of improving local governance capacity.<sup>56</sup> This is an example of the use of a measure of performance rather than a measure of effectiveness. In July 2007, USAID’s

own Regional Inspector General found no evidence that the LGP, “improved local government’s ability to provide services.”<sup>57</sup>

This is a clear example of a moral hazard problem because both USAID and RTI had incentives to overlook certain contractual details in their efforts to meet the broadest contractual obligations. Those incentives led to the use of measures of performance rather than to measures of effectiveness in reporting documents. This placed at risk the efficacy of the LGP, but neither USAID nor RTI stood to lose from that risk. SIGIR determined that it was impossible to ascertain whether or not the LGP had increased provincial and local governance capacity. Neither USAID nor RTI intended a program that was unable to demonstrate its value, but both organizations had incentives to behave in a manner that produced that result.

Another problem with the LGP was that it functioned in a manner that produced the same end results as rent-seeking. There are many types of rent-seeking behavior but an example convenient to the present discussion is tied aid or conditional aid. In a hypothetical example, Country X Aid Agency offers to fund a new water purification plant in Recipient Country Y, but only if the water purification system machinery is purchased from Country X Manufacturer and is installed by Country X laborers and then managed by Country X technicians. In this example, Country Y benefits by receiving a working water purification plant but various actors from Country X receive most of the economic benefit. The structure of the LGP produced results similar to tied-aid rent-seeking.

USAID did not have the necessary staff to administer the LGP directly and so contracted the program out to RTI. RTI hired predominantly American employees to serve as the Governance Team members.<sup>58</sup> USAID, as the donor government's primary aid agency, routinely partners with contractors.<sup>59</sup> However, those contractors normally are nationals or residents of the recipient country, and the aid money in the form of salaries has a follow-on effect of staying within the local economy. The LGP was different from most other USAID programs in that it was, by design, heavily staffed with contractors from the United States in order to meet security clearance requirements. RTI was responsible for recruiting subcontractors, ostensibly subject matter experts, to work on the PRT Governance Teams. The RTI subcontractors received substantial pay packages, approximating upper level General Schedule employee salaries with additional incentives for overtime, danger pay, and rest and recuperation travel.

We can estimate the costs of the salaries of the LGP contractors. A recruiting industry survey published in 2011 stated that in 2010 average compensation for professionals with U.S. security clearances who were working in war zones was \$148,427.<sup>60</sup> The survey also reported that compensation in addition to base salary was 77 percent of the base salary.<sup>61</sup> If we assume that the LGP contractors received benefit packages equivalent to a GS-14/Step 6 base salary, plus additional compensation at 77 percent of base salary for danger pay, overtime, and travel, we arrive at a conservative estimate of \$150,000 per team member per year.<sup>62</sup> If we further calculate that the twenty-nine PRT Governance teams were staffed with three members each for six years, then the

cost of the LGP PRT Governance team members alone is conservatively in excess of \$78 million or roughly 13 percent of the LGP contract total of \$600 million.

RTI had an incentive to hire American subject matter experts to perform the LGP Governance Team duties in Iraq because of security concerns including security clearance levels, and the dearth of a suitable applicant pool in Iraq. Since the RTI employees had no personal expenses to speak of while in Iraq, they received the overwhelming majority of their compensation package outside of Iraq.<sup>63</sup> As a result, a significant portion of the aid dollars slated for improving Iraqi provincial and local government capacities ended up in the bank accounts of American contractors. While we might not properly call the LGP Governance Team Members rent seekers of the traditional variety, USAID and RTI reliance on American contractors had the same economic impact as does tied aid, and thus qualifies as a rent-seeking problem.

### Economic Programs

The *PRT Playbook 2007* advised that PRT Team Leaders should subdivide their PRTs into groups or sub-teams. In addition to the RTI-staffed Governance Team, an Economic Team was suggested.<sup>64</sup> The suggestion was that the Econ Teams would group together the USAID representative, any U.S. Department of Agriculture representatives, business development contractors hired by DoS, any of the U.S. Army Civil Affairs personnel working on business related issues, and the United States Corps of Engineers Representative (USACE) as occasional members when USACE had an economic development project. This diverse group was supposed to work on a wide range of projects and programs aimed at promoting private enterprise and expanding economic

capacity in the provinces. The goal was to jumpstart local businesses and to reduce reliance on a centrally planned economy.<sup>65</sup>

The case of the Basrah Modern Slaughterhouse project (BMS) provides a convenient example of a more or less average economic development project and illustrates that something as straightforward as a building construction project designed to benefit a single locality contended with obstacles and incentives that led to unintended outcomes. In this case, the outcome was the construction of a slaughterhouse that was not likely to be used for its intended purpose at the completion of the project. The BMS project shows evidence of principal-agent, adverse selection, and signaling problems.

The Basrah PRT's Econ team developed the BMS project to provide a modern slaughterhouse facility to the community of Az Zubayr, a satellite of Basrah city.<sup>66</sup> Because it was a new construction project with significant infrastructure components, the PRT submitted its funding request as an Economic Support Fund project to USACE's Gulf Region South office (GRS). In August 2008, GRS approved the BMS project and awarded a contract for \$5,635,000 to a local builder.<sup>67</sup> The BMS project statement of work (SOW) called for a 6,000 square meter, fully modernized facility to be constructed and ready for operation (after an amendment to the SOW) in 315 days.<sup>68</sup> The project immediately encountered the first of a series of problems that delayed construction and which endangered successful completion. On September 29, 2009, SIGIR conducted a single one hour site assessment of the BMS facility and found that the project was already over thirty days behind schedule and that it was only about 45 percent completed.<sup>69</sup>

SIGIR catalogued a number of problems beginning with the unsuitability of the initial site that the PRT selected for the BMS and the relocation to a new but smaller site which prompted extending the length of time for project completion as described above.<sup>70</sup> SIGIR also discusses problems with the size of the BMS facility related to a revision of the plans to conform to the smaller dimensions of the new construction site. Throughout the report, SIGIR contends that the slaughterhouse facility as constructed was significantly smaller than the facility described in the governing SOW, and that GRS should have negotiated an equitable contract adjustment or price reduction.<sup>71</sup> SIGIR cites a number of e-mails in which GRS and the PRT contract manager clearly indicate that they are aware of the smaller size of the structure.<sup>72</sup> In its response to the SIGIR draft report however, USACE Gulf Region District (GRD), the superior office to GRS, disagreed with SIGIR's finding regarding a cost adjustment and accuses SIGIR of using the incorrect documents to evaluate the BMS project.<sup>73</sup> SIGIR's comments on the GRD response to its draft report used uncharacteristically strong language in its rejection of the GRD response, bordering on an allegation of mismanagement or incompetence.<sup>74</sup> SIGIR also reasserted the appropriateness of a contract adjustment.<sup>75</sup>

The exchange between SIGIR and GRD is a clear example of a principal-agent problem. As the actor funding the project, USACE GRD was functioning as the octangle Aid Agency, an agent of the U.S. Government. SIGIR insists that GRD was obligated to negotiate a price adjustment in favor of the principal. However, GRD refused to do so for a number of reasons. First, both GRD and the PRT were highly invested in the completion of the project, even though it was over time and over budget for the eventual



size of the facility. Their investment was more than an aversion to losing already sunk costs on the project. Project completion and the dollar values of those projects not only contributed to the success of the organizations but to the annual evaluations of the individuals within the organizations as we discovered in the CERP projects at Baghdad International Airport discussed above.

A second consideration is the relationship network between the contract manager and the PRT on the one hand and the contractor on the other. A revision of the contract that reduced the payment to the contractor would have threatened the relationship and the completion of not only the current BMS project, but also other present and future projects involving the contractor. The contractor could very easily have just pocketed his current earnings and walked away from the project. Further, given the provincial government's role in the origination and intended long term operation of the BMS project, failure to complete the project would have seriously impacted PRT relations with the provincial government. So USACE and the PRT were motivated by what they believed to be the bigger picture issue of many projects and programs over time, rather than by the smaller matter of a few hundred thousand or perhaps a million dollars in savings for the U.S. Government on one project in particular. As a consequence, the beneficiaries and the U.S. government got a smaller facility at a higher price. However, the problems did not end there.

The BMS project also experienced a signaling problem. In this case, the signaling problem was fairly straightforward. The contractor over represented his ability to comply with the statement of work and USACE GSR had an incentive to accept the contractors

representations. Like all of the U.S. Government agencies in Iraq that were responsible for funding projects, GRS was under pressure to approve projects quickly. The BMS project indicates that at least occasionally, GRS streamlined the project proposal and contractor vetting processes and also approved projects that contained errors or estimates that required in-course corrections and revisions.<sup>76</sup> Given the pressures to obligate reconstruction funds, GRS's action was rational. The substandard results that followed were unintended. The size of the facility and the delay in the completion of the BMS project might have been acceptable had there not been an even more significant problem.

The most critical of the BMS's problems was an adverse selection problem. As we saw above parties to an agreement tend to select bad products when they do not possess the same information. In the case of the BMS project, the entire project was bad, for a number of reasons. First, the initial site selected for the BMS by the Basrah Governor was in an uninhabited flood plain and required a new site selection after the award of the contract. Local officials, having recommended the site, were familiar with its limitations but the PRT members involved did not have that knowledge. Second, both the initial and final BMS sites were about 12 kilometers remote from the population they were intended to serve.<sup>77</sup> A complete lack of nearby electricity, water, and sewage/waste removal infrastructures further complicated the problem with the distance.<sup>78</sup> Again, local officials had this information while the PRT members did not. Lacking local energy, water, and waste water removal and treatment facilities, the BMS project would have to depend on alternate forms of supply, perhaps portable generators, trucked in water, and trucked out waste. SIGIR found no evidence of a commitment from the Basrah Provincial

government to supply those requirements and predicted that the BMS would be inoperable and unsustainable.<sup>79</sup> Basrah PRT planners suffered from an information asymmetry regarding critical details about the BMS project that their Basrah Provincial Government counterparts possessed and this resulted in the adverse selection of a site for the BMS that made the entire project a bad choice. The PRT or GRS might have mitigated the negative impacts of the bad choice if they had insisted on relocating the project to an acceptable site early in the process. However, the same incentives to complete projects discussed above, motivated both organizations to forge ahead with a project that had little chance of success. As a result, the PRT constructed, at least partially, a slaughterhouse that will never be used in an uninhabited area near Basrah.

### Conclusion

In this chapter, I have demonstrated that the rules governing the Iraq PRT program created perverse incentives that could lead to outcomes in direct opposition to the stated aims of the Iraq PRT program and the greater Iraq reconstruction effort. Selected examples drawn from three broad categories of PRT activity have illustrated the relationship between structural incentives, in the form of rules and regulations, and outcomes that were suboptimal or even contrary to desirable and hoped for outcomes. I drew the examples from published reports conducted by SIGIR. They are an independent and objective assessment of the various elements of the Iraq PRT program. In fact, the SIGIR reports functioned as correctives or checks on the Iraq PRT program by providing an otherwise lacking measure of oversight. SIGIR was also able to take a long view of a PRT project or program, something that the PRT and OPA, bedeviled by frequent

turnover and varying levels of experience or competence struggled to do consistently. In the next chapter we will consider what these findings mean and how we might apply them to future large scale developmental aid efforts.

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<sup>1</sup>NSPD 36, 1-3.

<sup>2</sup>Perito, 1.

<sup>3</sup>Rusty Barber and Sam Parker, Evaluating Iraq's Provincial Reconstruction Teams While Drawdown Looms: A USIP Trip Report, 1.

<sup>4</sup>White House, Fact Sheet: The New Way Forward, January 10, 2007, <http://georgewbush-whitehouse.archives.gov/news/releases/2007/01/print/20070110-3.html> (accessed June 4, 2013).

<sup>5</sup>Ibid.

<sup>6</sup>MOA, dated February 22, 2007.

<sup>7</sup>Perito, 5.

<sup>8</sup>Ibid., 4-6.

<sup>9</sup>Ibid., 4.

<sup>10</sup>Donnelly, 2.

<sup>11</sup>Perito, 4 and 10.

<sup>12</sup>Ibid., 3.

<sup>13</sup>MOA, dated February 22, 2007, 1.

<sup>14</sup>Donnelly, 2.

<sup>15</sup>Ibid., 1.

<sup>16</sup>Center for Army Lessons Learned (CALL), *Commander's Guide to Money as a Weapons System*, <http://usacac.army.mil/cac2/call/docs/09-27/09-27.pdf> (accessed June 4, 2013).

<sup>17</sup>Special Inspector General for Iraq Reconstruction, SIGIR 13-005, *Lessons Learned on the Department of Defense's Commander's Emergency Response Program in Iraq* (Washington, DC: SIGIR, January 24, 2013), 2.

<sup>18</sup>Special Inspector General for Iraq Reconstruction, SIGIR-08-006, *Commander's Emergency Response Program in Iraq Funds Many Large Scale Projects* (Washington, DC: SIGIR, January 25, 2008), 6.

<sup>19</sup>*Ibid.*, 11

<sup>20</sup>Special Inspector General for Iraq Reconstruction, SIGIR-11-020, *Commander's Emergency Response Program for 2011 Shows Increased Focus on Capacity Development* (Washington, DC: SIGIR, July 29, 2011), 5-7.

<sup>21</sup>SIGIR-08-006, 11.

<sup>22</sup>Gibson, 70.

<sup>23</sup>SIGIR-11-020, 8.

<sup>24</sup>*Ibid.*, 9.

<sup>25</sup>*Ibid.*, 11.

<sup>26</sup>SIGIR-08-006, .8.

<sup>27</sup>SIGIR 13-005,

<sup>28</sup>Gibson, 147-149.

<sup>29</sup>*Ibid.*, 155-157.

<sup>30</sup>Special Inspector General for Iraq Reconstruction, SIGIR-10-013 *Commander's Emergency Response Program: Projects at Baghdad Airport Provided Some Benefits, but Waste and Management Problems Occurred* (Washington, DC: SIGIR, April 26, 2013), 35.

<sup>31</sup>Serge Theunynck, *School Construction in Developing Countries: What do we know?* (Washington, DC: World Bank, 2002).

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<sup>33</sup>Ibid.

<sup>34</sup>Special Inspector General for Iraq Reconstruction, Special Report, *Special Report Number 3: Interagency Rebuilding Efforts in Iraq: A Case Study of the Rusafa Political District* (Washington, DC: SIGIR, February 26, 2013), 18-19.

<sup>35</sup>Special Inspector General for Iraq Reconstruction, Special Report, *Special Report: Reconstruction Leaders' Perceptions of the Commander's Emergency Response Program in Iraq* (Washington, DC: SIGIR, February 26, 2013), 10.

<sup>36</sup>SIGIR-13-005, 14-15.

<sup>37</sup>SIGIR-09-011, 2.

<sup>38</sup>Ibid., 7.

<sup>39</sup>Ibid.

<sup>40</sup>Perito, 9.

<sup>41</sup>Special Inspector General for Iraq Reconstruction, SIGIR-09-003 *Cost, Outcome, and Oversight of Local Governance Program Contracts with Research Triangle Institute* (Washington, DC: SIGIR, October 21, 2008), i.

<sup>42</sup>USAID Office of Inspector General, *Audit of USAID/Iraq's Participation In Provincial Reconstruction Teams In Iraq*, E-267-07-008-P (Washington, DC: USADI/OIG, September 27, 2007), 3.

<sup>43</sup>SIGIR-09-003, 1.

<sup>44</sup>Ibid., 22.

<sup>45</sup>Ibid., iv.

<sup>46</sup>Ibid., 3-4.

<sup>47</sup>Ibid., 3.

<sup>48</sup>Ibid.

<sup>49</sup>Ibid.

<sup>50</sup>Ibid., 6-8.

<sup>51</sup>Ibid., 8.

<sup>52</sup>Ibid., 7.

<sup>53</sup>Ibid.

<sup>54</sup>Ibid., 18.

<sup>55</sup>Perito, 4.

<sup>56</sup>SIGIR-09-003, 7.

<sup>57</sup>Ibid., 8.

<sup>58</sup>Perito, 4.

<sup>59</sup>USAID website, Work With USAID, <http://www.usaid.gov/work-usaid/partnership-inquiries>, (accessed June 1, 2013).

<sup>60</sup>ClearanceJobs.com, “2011 ClearanceJobs Compensation Survey: A comprehensive earnings survey of security-cleared professionals with 8,461 individuals responding between October 2010 and January 2011,” [http://marketing.dice.com/pdf/CJ\\_SalarySurvey\\_2009.pdf](http://marketing.dice.com/pdf/CJ_SalarySurvey_2009.pdf) (accessed June 3, 2013).

<sup>61</sup>Ibid.

<sup>62</sup>U.S. Office of Personnel Management, Salary Tables and Related Information, <http://archive.opm.gov/oca/12tables/index.asp> (accessed June 1, 2013).

<sup>63</sup>MOA, dated February 22, 2007, 4-7.

<sup>64</sup>*The PRT Playbook*, 69.

<sup>65</sup>Ibid., 67.

<sup>66</sup>Special Inspector General for Iraq Reconstruction, SIGIR PA-09-189, *Basrah Modern Slaughterhouse, Basrah, Iraq* (Washington, DC: April 27, 2010), 3.

<sup>67</sup>Ibid.

<sup>68</sup>Ibid., 5.

<sup>69</sup>Ibid., 15.

<sup>70</sup>Ibid., 4.

<sup>71</sup>Ibid., 10.

<sup>72</sup>Ibid., 11.

<sup>73</sup>Ibid., 51.

<sup>74</sup>Ibid., 35.

<sup>75</sup>Ibid., 39.

<sup>76</sup>Ibid., 9-11.

<sup>77</sup>Ibid., 25.

<sup>78</sup>Ibid.

<sup>79</sup>Ibid., 29.



## CHAPTER 5

### CONCLUSIONS AND RECOMMENDATIONS

#### Conclusions

The purpose of this thesis was to determine how the rules that governed the Iraq PRT program created perverse incentives that led to non-optimal or even contrary outcomes. Chapter 4 reviewed selected case studies using the IAD and identified examples of five distinct types of core dysfunctional problems in the case studies. These problems occurred because actors in the international development cooperation octangle had rational incentives or motivations to act in a way that produced outcomes deleterious to the ongoing effort to reconstruct Iraq. This chapter will draw conclusions from the findings of the case studies and make recommendations for additional study.

The case studies in chapter 4 have demonstrated that the Iraq PRT program was susceptible to several core dysfunctional problems. Information asymmetry problems occurred more frequently in the case studies considered for this paper, although a form of rent-seeking, a motivational problem, was also present. The repeated occurrence of information asymmetry problems is significant. In an action arena as large, complex, and dynamic as post-war Iraq there was an unusually large number of international development cooperation octangle actors. Further, the individuals filling the actor roles came and went in an ever-shifting flow of deployments, replacements, and reassignments that meant individual actors had less time to contribute than is usual in a development action arena. We can conclude that the likelihood of information asymmetry problems

occurring in such an environment will be high, given the potential for communication failure between the many actors trying to work across a linguistic divide.

A trial and error approach was part of the PRT design; despite Rittel and Webber's warning that trial and error attempts to solve wicked problems will only contribute to the problem. In conjunction with this, we found that the PRTs duplicated projects that were perceived as successful or which appeared to be clear and forthright. In the discussion of the use of CERP funds to build schools we saw that the cookie-cutter approach of project duplication created new problems for the intended beneficiaries. A one size fits all approach adopted after a successful trial in one action situation did not necessarily produce the same successful results when duplicated elsewhere. Yet PRT and BCTs across Iraq continued to build them. We can conclude that the donor's aid agents had institutional motivations to construct new schools that had no relation to their effectiveness in furthering stated development and reconstruction objectives. The motivations were an overreliance on performance metrics that that gave incentives for action to the PRTs as aid agents at the expense of the intended beneficiaries.

The ad hoc nature of the PRTs also contributed to deleterious outcomes. PRT members came from across the government spectrum and the private sector. Not only did PRTs suffer from a confused chain of command based on whom they worked for, the DoS and the DoD provided little in the way of guidance for the PRTs. OPA, the office with stated direct oversight of the PRTs spent an inordinate amount of time, especially in the early years, focused on administrative details associated with the program, such as

approving QRF-S funding applications and recruiting. OPA provided little in the way of programmatic guidance or goal setting until charged to do so by SIGIR.

The dual DoS-DoD nature of the program and the interagency quarreling over administrative details also hampered PRT effectiveness. PRT Team Leaders were in nominal control of the PRTs but the location of PRTs on FOBs and their dependence on BCTs for security and maneuver meant that they had little independence of operation. PRT efforts could be sidelined by the BCT commander if they did not coincide with his priorities by the simple expedient of cancelling a scheduled movement. This problem occurred more frequently in highly kinetic areas.

SIGIR and USAID/OIG both attempted to provide course corrections and inject accountability into PRT oversight. The structure of the PRTs, OPA, and Embassy Baghdad made this challenging. SIGIR inspectors experienced the same logistical frustrations as the PRTs when conducting onsite inspections. The amount of time between a SIGIR inspection and the publication of the subsequent report could be significant. In the case of the BMS, for example, the project was approved in October 2008, SIGIR conducted a one hour on site assessment in September 2009, and published its report in April 2010. Lengthy assessment processes prevented timely corrections and contributed to sub-optimal outcomes. SIGIR's efforts to provide such oversight only highlights that the PRTs themselves lacked sufficient oversight and accountability measures. Over time, SIGIR's calls for improved oversight led to a dispute with DoS that focused on accountability and measures of performance but that omitted a real discussion of sustainability and measures of effectiveness.

### Recommendations for Further Study

This study represents only a small portion of the entire Iraq PRT experience; it examined only four case studies. Further study of other aspects of the Iraq PRT program using the IAD methodology is needed improve our understanding of the Iraq PRT program overall. The specific PRTs might be considered in conjunction with political and social developments in a particular region such as any possible relationship between the Al Anbar PRT and the Al Anbar awakening. PRTs were also involved in other programmatic efforts such as USAID's Community Stabilization and Community Action Programs. An examination of them using the IAD would be useful.

I did not explore the role of developmental aid as a counterinsurgency tool in this thesis. The Iraq PRT program contained elements of a hearts and minds approach to winning over the civilian population of Iraq. Additional inquiry into how ongoing combat operations impacted PRT delivery of developmental and the effectiveness of that aid in countering insurgency would lead to an improved understanding of whether such efforts are worthwhile or not.

### Thesis Conclusion

So how did the rules governing PRTs foster perverse incentives and deleterious outcomes? The rules encouraged a trial and error approach that is not consistent with a wicked problem set. The intentionally ad hoc structure of the individual PRTs, the cobbling together of military personnel, civilian government employees, and contracted subject matter experts into temporary teams, contributed to a lack of a unified programmatic vision and prevented the development of a comprehensive plan for the

reconstruction of Iraq. PRTs were overly inward looking when it came to measuring success. They had incentives to rely on performance metrics which had little connection to the critically important developmental objectives of beneficiary ownership and sustainability.

These conclusions closely parallel those of Clark Gibson and his co-authors in their study of Sida. By employing their IAD, especially the idea of the international development cooperation octangle, I have identified problems within the Iraq PRT program that are similar to those revealed in the Sida case studies. The entire Iraq PRT program appears to have been a throwback to a developmental approach that focused on the transfer of large sums of money from the United States to Iraq. International aid donors have largely rejected that developmental approach in favor of an approach that focuses on sustainability and ownership.<sup>1</sup> The sustainability and ownership approach is predicated on the idea that the donor's aid agency and its agents learn about the action arena and the beneficiaries.<sup>2</sup> Learning about beneficiaries and their environment takes time, and that is something the PRTs did not have. The structure of the PRTs, as an institution, actively encouraged quick responses to crises and favored short-term over sustainable approaches. Given those incentives, it was perfectly rational for PRTs and team members to do so despite deleterious outcomes for both donor and beneficiary.

Throughout the duration of the Iraq PRT program, PRTs and team members functioned as conduits of developmental aid, but in truth, the PRTs were not an aid agency and the team members were not developmental aid professionals. They did not possess the requisite training and they did not have the benefit of the professional

development and institutional knowledge that are necessary to do developmental aid right.

Doing aid right is something that donor aid agencies and their desk officers also struggle to accomplish.<sup>3</sup> Developmental aid is a difficult proposition in the best of circumstances and the difficulty is compounded in a post-war action arena experiencing varying degrees of insurgent activity and terrorism. The Iraq PRT program struggled with institutionalized perverse incentives and negative outcomes thorough out the life of the program. It remains to be seen if the program was successful overall despite those struggles.

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<sup>1</sup>Gibson, 226.

<sup>2</sup>Ibid., 229-231.

<sup>3</sup>Ibid., 229-232.

## GLOSSARY

**Action arena.** In the context of developmental aid, the environment composed of actors and action situations.

**Action situation.** A construct used by analysts to identify those factors most relevant to a particular process and to interpret the actions and results.

**Actors.** Individuals or groups participating in the developmental aid process.

**Adverse selection problems.** An information asymmetry problem that occurs when both parties to an agreement do not share the same information the usual result of which is the selection of bad products.

**Core dysfunctional problems.** Problems that occur within institutions and which are particularly troubling in aid receiving nations.

**Information asymmetry problem.** A category of core dysfunctional problems that arise from an imbalance of information.

**Institutional Analysis and Development Framework.** An institutional analysis methodology developed by scholars involved with the Workshop in Political Theory and Policy Analysis at Indiana University that is well suited for studies concerning developmental aid.

**International Development Cooperation Octangle.** A graphic image used to diagram the nexus of relationships between the actors in a developmental aid action arena.

**Moral hazard.** An information asymmetry problem in which one party to an agreement engages in risky behavior, the potential costs of which will be borne by another party

**Motivational problems.** A category of core dysfunctional problems that occur when the actors do not have adequate motivation to act in a manner that produces mutual benefits

**Perverse incentive.** A condition or motivation within an institution that produces an outcome opposed or contrary to a stated desired outcome.

**Principal-agent problem.** An information asymmetry problem in which a principal experiences difficulty in motivating one of its representatives or branches to act in the best interests of the principal. Instead the agent acts in a way that maximizes some other actor's best interests.

Rent-seeking. A motivational problem in which an actor accrues to himself financial benefits without contributing to the creation of additional wealth

Signaling problems. An information asymmetry problem in which at least one party to an agreement transmits information about itself that turns out to be inaccurate, false, or incomplete, regardless of the motive or intent of the sender.

Wicked problems. Highly complex problems composed of a web of interconnecting situations that shift and reconfigure themselves in the midst of attempts to resolve them thus exhibiting resistance to simple solutions.



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